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C O N F I D E N T I A L SECTION 01 OF 03 TAIPEI 003430

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STATE PASS TO AIT/W AND USAID
AMEMBASSY BEIJING PLS PASS TO AMCONSUL CHENGDU

E.O. 12958: DECL: 11/01/2014

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SUBJECT: MOFA ON THE DEFENSIVE OVER CENTRAL AMERICA AID

REF: SAN JOSE 02803

Classified By: AIT Deputy Director David J. Keegan, Reason: 1.4 (B/D)

11. (C) Summary. Taiwan officials are on the defensive in the wake of press allegations that MOFA funneled US\$1.4 million to former Costa Rican president Miguel Angel Rodriguez. MOFA officials claim only \$400,000 was given to Costa Rica for training programs and that Rodriguez apparently misused the funds. Lawmakers have since released the approximately \$40 million in confidential aid for Central America that had been frozen over the incident, but only if certain conditions are met by MOFA. The scandal, however, is not likely to alter the way Taipei disperses aid to Central America in the immediate term. MOFA and members of the Legislative Yuan (LY) appear most concerned with how the incident will affect Taipei's diplomatic battle with Beijing in the region, rather than whether it signals a need for more fundamental reform to Taipei's confidential aid procedures. Officials are adamant that a mechanism be established to ensure aid to Taiwan's diplomatic nations remains secret. Adding to Taipei's woes, the government of Nicaragua is also planning to officially request that Taiwan respond to allegations that it gave \$1.5 million to former President Aleman. MOFA officials tacitly acknowledge that some payments were made to Aleman. End summary.

MOFA Denies Payments Went to Rodriguez

12. (C) MOFA officials assured lawmakers from the LY's Foreign Affairs Committee that press reports in Costa Rica that claimed Taiwan funneled \$1.4 million in payments over 3 years to former President Rodriguez were completely false. MOFA Deputy Director General for Latin American Affairs, Wu Chin-mu, told AIT that MOFA provided a total of \$400,000 in 2001 and 2002 for personnel training programs and conferences in response to a request from the Costa Rican government. Wu said Rodriguez may well have misused the money for his own benefit without MOFA's knowledge. Wu said that he knew nothing about the other \$1 million that was reportedly passed to a Rodriguez affiliated company in Panama. Wu also told AIT that this was the same explanation that was officially provided via Taipei's Embassy in San Jose to the Costa Rican government.

Central American Aid Released With Conditions

13. (C) After the Rodriguez scandal broke, \$40 million in confidential aid funds for Central America were frozen by the

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LY's Foreign Affairs Committee. The money was only released by the Foreign Affairs Committee after Foreign Minister Mark Chen personally agreed to meet certain conditions demanded by legislators. Bill Sun, a lame duck KMT legislator on the Foreign Affairs Committee, told AIT that the LY's first requirement was that MOFA immediately form a multi-agency task-force comprised of diplomats, financial auditors, and lawmakers to investigate the Rodriguez allegations and to evaluate Taiwan's aid programs for Central America. Sun also said he wanted to confirm that the \$1 million had not been provided to Rodriguez through some other avenue, such as via the National Security Bureau (NSB). Secondly, Sun said that MOFA had agreed to hold a video-teleconference with lawmakers, MOFA officials, and Taiwan's Central American Ambassadors to determine the best strategy over the next six months to minimize damage to Taiwan's relationship with its diplomatic partners. Sun asserted that the task force may eventually evolve into a policy making group to review methods for providing aid and safeguards to ensure confidentiality.

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14. (C) Democratic Progressive Party (DPP) Foreign Affairs Committee Convener Bi-khim Hsiao told AIT that the recent revelations were unfortunate, but demonstrated the challenges Taiwan faces in trying to maintain its dwindling numbers of formal diplomatic relationships. Hsiao noted that Foreign Minister Mark Chen and his recent predecessors have all endorsed the need for more transparency in the way Taiwan distributes foreign aid, but their enthusiasm has been

tempered by fear of being the one held responsible for "losing" a diplomatic partner. Hsiao said that a full disclosure of Taiwan's aid programs may also incite a bidding war among Taiwan's developing country relations. Hsiao asserted that the only course open to the DPP government is to incrementally reform its money-based foreign policy approach to enhance accountability.

Impact on Diplomatic Relations?

15. (C) MOFA officials do not believe the scandal will have any immediate consequences on Taipei's diplomatic standing in Central America. However, there is concern that in the long term this could have serious ramifications on Taipei's competition with Beijing in Latin America. Sun told AIT he is worried that Taiwan's interests would be jeopardized if Taipei's Central American partners started to "compare notes" over how much they each receive from Taiwan. Sun also expressed concern over the PRC's ability to discover the amount of aid Taiwan is giving and the manner in which it is distributed. Wu echoed Sun's comments and expressed dismay that details of MOFA foreign aid practices had been publicly revealed. He was particularly concerned that Beijing's knowledge of Taipei's activities in the region might allow them to outbid Taipei, as he claimed occurred with Antigua earlier in the year. Wu added that the PRC is very active in the region and is trying to steal away Taiwan's diplomatic relationships.

Et Tu Managua?

16. (C) Within days of the Costa Rican allegations came reports that MOFA may have provided payments to the Nicaraguan former president, Arnoldo Aleman. When asked about the allegations that \$1.5 million had been transferred to Aleman while he was president, MOFA DDG Wu did not deny the allegations. Rather, he explained to AIT that Taiwan faces unique diplomatic challenges and cannot always rely on traditional forms of diplomacy. Wu refused to say how Taipei would respond to reported plans by Nicaragua to ask Taipei for an official explanation over the Aleman affair.

Comment: Will Anything Really Change?

17. (C) Despite the embarrassment this scandal has caused Taipei and MOFA, Taiwan shows little inclination in the short-run to change the way aid is dispersed to Central America. Under-the-table payments to foreign leaders have been a mainstay of Taipei's foreign policy for decades. However, with Beijing becoming increasingly active in the region and new, potentially less friendly (and less corrupt) governments in Costa Rica, Nicaragua, and Panama, Taipei has little margin for error in the diplomatic recognition game. New administrations in Central America may find that it is not worth the embarrassment of dealing with Taiwan if these aid flaps continue, especially if Beijing steps up to the plate with more attractive above board incentive packages. Moreover, a growing backlash at home and abroad against the practice of direct payments to political parties and foreign leaders also complicates the traditional approach.

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